



InterOffice Memo

To: R. Tomblin
From: Geoffrey L. Pratt
Date: July 13, 1993
Subject: Stockhausen Project Capital Appropriation

Attached are the economics for the Stockhausen project updated to include the new appropriation estimate of \$600,000. The three cases refer to three possible scenarios of production level which might occur and were included in the proposal dated March 10, 1993 to Stockhausen upon which they based their decision to proceed. The economics, as presented, are distorted somewhat by the fact that the project does not begin until the last quarter of 1993, but I have left the presentation the same as that used in the presentation to Stockhausen to maintain consistency. The net result is what appears to be a four year payout in Case I, is in reality slightly over a three year payout.

lc

A handwritten signature in black ink, appearing to be "G. L. Pratt", written over a horizontal line.

CC: D. Hoppel
T. Lodice

9352119



July 8, 1993

CASE I
Stockhausen Project Contract Analysis

Capital M-\$ Stockhausen	0	Operating Cost M-\$/day					
Cedar	600	Startup					5
Plant Capacity M-lbs	10000	Normal					4
Daily Oper. Fee \$-M	8	8	8	8	8		
Startup Fee \$-M	10	10	10	10	10		
Year	1993	1994	1995	1996	1997	1998	
Production M-lbs	335	1164	1320	1502	1734	1919	7974
Production Time Days	7	40	46	53	61	68	
Startup Time Days	10	4	4	4	4	4	
Plant Prep. & CO Days	5	12	12	12	12	12	
Total Days	22	56	62	69	77	84	
Production Cost M-\$	104	242	265	291	325	352	
Depreciation M-\$	60	60	60	60	60	60	
Revenue M-\$	208	484	529	583	650	704	3158
Gross Profit M-\$	104	242	265	291	325	352	
Gross Profit % Sales	50	50	50	50	50	50	
Operating Profit M-\$	44	182	205	231	265	292	
Interest 9% M-\$	54	49	43	38	32	27	
NPBFT M-\$	-10	133	162	193	233	265	
NPAFT M-\$	-7	87	105	126	151	172	
							Average
Price / lb	0.62	0.42	0.40	0.39	0.38	0.37	0.40
Cash Flow M-\$	-547	147	165	186	211	232	1162
Payout	547	400	235	49	-162	-395	
IRR %	37%						

Production days calculated by ratioing demand to plant capacity
Interest on undepreciated capital

July 8, 1993

CASE II
Stockhausen Project Contract Analysis

Capital M-\$ Stockhausen	0						
Cedar	600						
Plant Capacity M-lbs	10000						
Daily Oper. Fee \$-M	8	8	8	8	8		
Startup Fee \$-M	10	10	10	10	10		
Year	1993	1994	1995	1996	1997	1998	
Production M-lbs	335	2625	2970	3217	3533	3809	16489
Production Time Days	7	94	106	115	127	137	
Startup Time Days	10	4	4	4	4	4	
Plant Prep. & CO Days	5	12	12	12	12	12	
Total Days	22	110	122	131	143	153	
Production Cost M-\$	104	455	506	542	588	628	
Depreciation M-\$	60	60	60	60	60	60	
Revenue M-\$	208	911	1011	1083	1176	1256	5645
Gross Profit M-\$	104	455	506	542	588	628	
Gross Profit % Sales	50	50	50	50	50	50	
Operating Profit M-\$	44	385	446	482	528	568	
Interest 9% M-\$	54	49	43	38	32	27	
NPBFT M-\$	-10	347	402	444	495	541	
NPAFT M-\$	-7	225	262	289	322	352	
Price / lb	0.62	0.35	0.34	0.34	0.33	0.33	Average 0.34
Cash Flow M-\$	-547	285	322	349	382	412	2059
Payout	547	261	-60	-409	-791	-1203	

IRR %

66%

Production days calculated by ratioing demand to plant capacity
Interest on undepreciated capital

July 8, 1993

CASE III
Stockhausen Project Contract Analysis

Capital M-\$ Stockhausen	0						
Cedar	600						
Plant Capacity M-lbs	10000						
Daily Oper. Fee \$-M	8	8	8	8	8		
Startup Fee \$-M	10	10	10	10	10		
Year	1993	1994	1995	1996	1997	1998	
Production M-lbs	335	2625	1834	1391	1514	1643	9342
Production Time Days	7	94	65	49	53	58	
Startup Time Days	10	4	4	4	4	4	
Plant Prep. & CO Days	5	12	12	12	12	12	
Total Days	22	110	81	65	69	74	
Production Cost M-\$	104	455	340	275	293	312	
Depreciation M-\$	60	60	60	60	60	60	
Revenue M-\$	208	911	680	550	586	624	3558
Gross Profit M-\$	104	455	340	275	293	312	
Gross Profit % Sales	50	50	50	50	50	50	
Operating Profit M-\$	44	395	280	215	233	252	
Interest 9% M-\$	54	49	43	38	32	27	
NPBFT M-\$	-10	347	237	177	201	225	
NPAFT M-\$	-7	225	154	115	130	146	
							Average
Price / lb	0.62	0.35	0.37	0.40	0.39	0.38	0.38
Cash Flow M-\$	-547	285	214	175	190	206	1031
Payout	547	261	47	-128	-318	-524	
IRR %	46%						

Production days calculated by ratioing demand to plant capacity
Interest on undepreciated capital

TOLLING AGREEMENT

THIS AGREEMENT is made and effective as of the 30th day of April, 1993, by and between STOCKHAUSEN, INC., with offices at 2408 Doyle Street, Greensboro, North Carolina 27406 (hereinafter "Stockhausen") and CEDAR CHEMICAL CORPORATION, with offices at 24th Floor, Clark Tower, 5100 Poplar Avenue, Memphis, Tennessee 38137 (hereinafter "Cedar").

W I T N E S S E T H:

WHEREAS, Stockhausen has developed and currently possesses a Process which it represents to be capable of producing bleached walnut shells from ground walnut shells (hereinafter referred to as the "Product") and is desirous of having the Product manufactured for it by Cedar in accordance with such Process; and

WHEREAS, the parties entered into a Secrecy Agreement dated November 30, 1992 (the "Secrecy Agreement") which governs the terms under which Cedar shall disclose confidential and proprietary information and to the extent consistent with and supplementary to this Agreement, the Secrecy Agreement is incorporated herein by reference; and

WHEREAS, Cedar has personnel and some of the equipment necessary for the manufacture of the Product and is desirous of manufacturing the Product for Stockhausen in accordance with the terms and conditions hereof.

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

For purposes of this Agreement, the following terms shall have the following meanings assigned thereto:

1.1 "Raw Materials" shall mean walnut shells supplied by Stockhausen and those other raw materials required for the production of Product, to be furnished by Cedar at Stockhausen's cost, all as identified, and meeting the specifications, set forth in Exhibit A attached hereto.

1.2 "Equipment" shall mean the equipment, improvements and alterations made to Cedar's Production Unit No. 4B at the Plant (as hereinafter defined) installed for the purpose of enabling Cedar to produce Product hereunder.

1.3 "Plant" shall mean Cedar's chemical manufacturing facility at Highway 242, West Helena, Arkansas.

1.4 "Product" shall mean bleached and ground walnut shells, the specifications for which are set forth in Exhibit B attached hereto.

1.5 "Campaign" shall mean the continuous production of Product up to the quantity determined hereunder.

1.6 "Process" shall mean Stockhausen's process for producing Product referred to herein, as described in Exhibit E attached hereto.

2. TERM

The initial term of this Agreement (the "Initial Term") shall be for a period of three (3) years commencing on May 1, 1992 and terminating on April 30, 1995. If Stockhausen wishes to extend the term of this Agreement, it shall notify Cedar not later than October 31, 1994, at which time the parties will

negotiate in good faith to reach agreement on fees and other terms applicable to such extended term.

3. METHOD OF OPERATION

3.1 Stockhausen shall furnish Cedar with or cause it to be furnished with walnut shells meeting the specifications attached hereto as Exhibit A, and Cedar shall furnish, at Stockhausen's cost, such other Raw Materials, in such amounts as shall be sufficient to enable Cedar to produce those quantities of Product ordered by Stockhausen hereunder from time to time. In the first Campaign, Cedar will utilize the Equipment to manufacture approximately 330,000 pounds of Product from ground walnut shells supplied by Stockhausen, in accordance with Stockhausen's said manufacturing Process. Thereafter, Cedar will produce additional quantities of Product for Stockhausen during at least one Campaign each calendar quarter during the Initial Term hereof, such Campaigns to be scheduled in accordance with notices to Cedar by Stockhausen not later than the end of each immediately preceding Campaign, beginning with the Initial Campaign.

3.2 Initiation of the first Campaign will commence promptly following completion of the installation of the Equipment and issuance of any amended permits required by state or federal governmental authorities in order for Cedar to perform hereunder, all of which Cedar shall make its best efforts to complete and obtain by October 1, 1993. During the first Campaign, Cedar will make its best efforts to produce at least 330,000 pounds of Product meeting the specifications referred to herein from Raw Materials.

3.3 Storage facilities for Raw Materials supplied by Stockhausen and Product at the Plant shall be limited to Unit 4B where the Equipment is installed. Cedar shall preserve and protect the Raw Materials and the Product from contamination, loss, theft, damage or destruction, and from attachment, levy, distraint or any other actions by Cedar's creditors, while in Cedar's possession. Cedar shall fully account periodically for all Raw Materials, work in process and the Product in its possession; shall keep such records relating thereto as Stockhausen may reasonably request; and shall furnish Stockhausen with a certificate of insurance that conforms with Cedar's undertakings described in Section 4 below. At the end of each Campaign, unused Raw Materials supplied or paid for by Stockhausen shall be returned to and accepted by Stockhausen at Stockhausen's cost or stored by Cedar, as aforesaid, at no additional cost to Stockhausen. Upon termination of the Agreement, all remaining unused Raw Materials and Product shall promptly be returned to and accepted by Stockhausen at Stockhausen's cost.

3.4 Raw Materials shall be accepted according to Cedar's ordinary business practices. Cedar shall analyze all Raw Materials delivered to it hereunder in accordance with the test methods designated in Exhibit C, and Cedar shall promptly advise Stockhausen of any apparent defects in such Raw Materials or failure of any Raw Materials to conform with said specifications based on analyses hereunder. A weigh ticket and certificate of analysis shall be provided by Stockhausen or its supplier, and by

Cedar, or its supplier, for every shipment of Raw Materials to be used in the production of Product hereunder.

3.5 Cedar shall ship the Product in accordance with Stockhausen's instructions and at Stockhausen's cost. In connection with each such shipment, Cedar shall prepare a bill of lading in standard form, and, Cedar will send a copy of such bill of lading to Stockhausen.

3.6 Each party shall be liable for demurrage to the extent charges therefor result from its errors or omissions.

4. TITLE AND RISK OF LOSS

4.1 Title to the Raw Materials delivered by Stockhausen or its supplier to Cedar shall at all times remain solely in Stockhausen; said Raw Materials and the Product shall be segregated from other materials and goods of Cedar; and Cedar shall take such other steps as Stockhausen shall reasonably request to indicate Stockhausen's title to said Raw Materials and the Product.

4.2 The risk of loss of Raw Materials delivered by Stockhausen or its suppliers shall remain with Stockhausen until delivery of such Raw Materials to the Plant and Cedar's acceptance thereof. Cedar shall not be deemed to have accepted Raw Materials for which it provides notification to Stockhausen in accordance with Section 3, that such Raw Materials fail to meet the specifications set forth in Exhibit A hereto. Cedar shall bear the risk of loss for all Raw Materials and Product while in its possession and control unless and to the extent loss or liability results from Stockhausen's negligence. Cedar shall not be liable

for economic, incidental or consequential damages, such as business interruption or lost profits incurred by Stockhausen due to a loss of Raw Materials or Product. Cedar shall maintain insurance in appropriate form and amount in accordance with industry standards covering the Raw Materials and the Product.

4.3 The risk of loss of Product produced hereunder and of Raw Materials delivered to Stockhausen hereunder shall shift to Stockhausen upon delivery of same to common carrier at the Plant incident to shipment to Stockhausen.

5. PRODUCT QUALITY

5.1 Cedar shall make its best efforts to produce Product meeting the specifications set forth in Exhibit B. Beginning with the first day of production following the conclusion of startup of the first Campaign (such startup being the Demonstration Run referred to in Section 6), Cedar shall warrant the Product produced hereunder to meet the specifications attached hereto as Exhibit B or such other specifications as the parties shall adopt. CEDAR MAKES NO OTHER WARRANTY WITH RESPECT TO THE PRODUCT, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND NONE SHALL BE IMPLIED. To determine whether Product produced hereunder meets the specifications attached hereto as Exhibit B or any agreed revised specifications, Cedar shall comply with the test methods and sample retention and disposition procedures specified in Exhibit D attached hereto.

5.2 In the event that any Product produced hereunder shall fail to meet the specifications referred to herein as a

result of Cedar's failure to follow Stockhausen's process, Cedar at no cost to Stockhausen shall produce a replacement batch which does conform with such specifications.

6. PRODUCTION AND FEES

6.1 Cedar shall operate the Equipment for production of Product ordered by Stockhausen in accordance with the terms hereof in continuous five or seven day week, twenty-four hour per day Campaigns. Stockhausen shall supply sufficient ground walnut shells meeting the specifications identified in Exhibit A to allow Cedar to produce Product ordered by Stockhausen hereunder in such continuous Campaigns. In the event a production Campaign is interrupted as a result of Stockhausen's failure to supply ground walnut shells as aforesaid, Stockhausen shall pay to Cedar a standby fee of \$6,000 per day (the "Standby Fee") for each day during which such Campaign is interrupted as aforesaid.

6.2 Stockhausen agrees to pay Cedar a startup fee ("Startup Fee") of \$10,000 per day beginning with the first day on which Cedar begins efforts to produce Product hereunder in the Initial Campaign and ending at such time as it shall have been demonstrated to the reasonable satisfaction of Cedar and Stockhausen that Stockhausen's process when carried out in the Equipment is capable of producing Product meeting the specifications attached hereto as Exhibit B (the "Demonstration Run").

6.3 Following the Demonstration Run, for each day or partial day of production during the Initial Campaign and during

each subsequent Campaign, Stockhausen shall pay to Cedar a production fee (the "Production Fee") each day or portion of a day in which Cedar produces Product hereunder during such Campaign at the rate of \$8,000 per day.

6.4 In addition to the Startup Fees, Standby Fees and Production Fees payable hereunder, Stockhausen shall also pay to Cedar with respect to each separate Campaign a plant preparation and clean-out fee (the "PP&C Fee") at the rate of \$30,000 per Campaign (except, in connection with the Initial Campaign, the PP&C Fee shall be \$50,000) to cover the cost of all operator training, water batching, environmental and safety review, logistical preparations for startup, analytical calibration procedures, plant clean-out at the completion of the Campaign and labor associated with the return of unused Raw Materials and disposal of wastes generated from the clean-out as more particularly described in Exhibit F attached hereto.

6.5 All fees due and payable hereunder, and the costs of all Raw Materials incurred by Cedar hereunder, shall be invoiced monthly by Cedar as of the end of each production month and shall be payable by Stockhausen thirty (30) days from date of invoice.

6.6 Following the Initial Campaign, the parties shall negotiate in good faith in an effort to establish unit pricing for Product in lieu of a per diem Production Fee, such pricing to be based on the production results achieved and the applicable Production Fees and PP&C Fees during the Initial Campaign or during any subsequent Campaign.

6.7 The Startup Fees, Production Fees, Standby Fees and PP&C Fees specified in this Agreement, plus any unit pricing as may hereafter be agreed to by the parties in lieu of the Production Fees specified hereinabove shall be subject to escalation or de-escalation effective April 30, 1994 and annually thereafter upon notice by Cedar to Stockhausen based on the following formula:

1. $.53 \times$ (percentage increase or decrease in the base rate for lead operators employed at the Plant - May 1, 1993 - May 1, 1994 and May 1 of each subsequent contract year); plus
2. $.06 \times$ (percentage increase or decrease in electric rates at the Plant - May 1, 1993 - May 1, 1994 and May 1 of each subsequent contract year); plus
3. $.03 \times$ (percentage increase or decrease in the gas rates at the Plant - May 1, 1993 - May 1, 1994 and May 1 of each subsequent contract year); plus
4. $.38 \times$ (percentage increase or decrease in the consumer price index - May 1, 1993 - May 1, 1994 and May 1 of each subsequent contract year).

Cedar shall provide Stockhausen with reasonable documentation of such cost escalation or de-escalation in order to permit Stockhausen to verify the corresponding increases or decreases in fees payable hereunder.

7. PLANT MODIFICATION AND EQUIPMENT

7.1 Stockhausen acknowledges that Cedar has incurred and will incur costs incident to the modification and improvement of Unit 4B comprising the Equipment more particularly identified in Exhibit G attached hereto (the "Modifications"), which Modifications are deemed by Stockhausen adequate to enable Cedar to produce Product in accordance with the provisions hereof. Cedar agrees to complete the Modifications as promptly as possible; to notify Stockhausen when the Modifications are complete; and to provide Stockhausen with its total direct costs and expenses incurred in carrying out the Modifications, with reasonably detailed supporting documentation.

7.2 The parties agree that Cedar's undertaking to advance the cost of the Modifications is premised upon Stockhausen's commitment to order the production of not less than 3,000,000 pounds of Product hereunder during the Initial Term of this Agreement. If Cedar fails to manufacture at least 3,000,000 pounds of Product during the Initial Term hereof for any reason other than Cedar's own negligence or its breach of any covenant contained herein, Stockhausen shall pay to Cedar upon expiration of the Initial Term or upon any earlier termination of this Agreement, in addition to all other sums due hereunder, a Modification fee equal to Cedar's documented cost of Modifications divided by 3,000,000 pounds times the difference between 3,000,000 pounds and the number of pounds of Product produced by Cedar and paid for by Stockhausen hereunder.

8. WASTE DISPOSAL

8.1 Cedar shall handle the neutralization, storage, transportation and disposal of all non-hazardous liquid wastes and by-products generated in the manufacture of the Product. Cedar shall indemnify and hold Stockhausen harmless against all loss, costs, damages, fines, penalties, liability and expense, including reasonable attorneys fees arising out of Cedar's said disposal of non-hazardous wastes.

9. ACCESS TO PLANT

9.1 During the startup period (the "Demonstration Run") during the Initial Campaign hereunder, Stockhausen shall arrange for its own technical and engineering employees to be present at the Plant to provide reasonable assistance and consultation to Cedar during said startup.

9.2 Cedar shall keep Stockhausen fully and currently informed with respect to the production of the Product and shall afford access to Stockhausen personnel to observe the production operation. Stockhausen shall hold Cedar harmless from and indemnify it against all claims and liability on account of personal injury suffered by such Stockhausen personnel while at Cedar's Plant.

10. INDEMNIFICATION

10.1 Cedar agrees to hold Stockhausen harmless from and to indemnify Stockhausen against all loss, cost, damages, liability and expense (including reasonable attorney's fees) on account of death, personal injury or property damage that results from or is

related to an occurrence involving Cedar's handling or storage of Raw Materials or Cedar's manufacture, handling, storage, or delivery to the Carrier of the Product during periods when such Raw Materials or the Product are in Cedar's possession or control, unless and to the extent caused by Stockhausen's negligence.

10.2 Stockhausen agrees to hold Cedar harmless from and to indemnify Cedar against all loss, costs, damages, liability and expense (including reasonable attorney's fees) on account of death, personal injury or property damage that results from or is related to occurrences involving the handling, storage, transportation, sale or use of Raw Materials delivered to Cedar hereunder and of the Product produced by Cedar hereunder when such Raw Materials and the Product are not in Cedar's possession and control, unless and to the extent caused by Cedar's negligence.

10.3 Neither party shall be liable to the other for any indirect, incidental or consequential damages, regardless of fault or concurrent negligence of the parties.

11. COMPLIANCE WITH LAWS

Both parties shall fully comply with every federal, state and local law, ordinance, order, rule and regulation to which they are subject as a result of and to the extent required by their obligations hereunder including, without limitation, the Fair Labor Standards Act, as amended, and Executive Order No. 11246 (Equal Employment Opportunity) with all amendments thereto or as it may be superseded, and both parties agree that all the provisions of said Executive Order, as amended or superseded, are hereby made a part

hereof by reference and are binding upon the parties. Both parties confirm that they have complied and they and their subcontractors and vendors will comply with the applicable provisions of said Executive Order and the rules and regulations promulgated under the authority thereof, including, among others, reporting requirements. Each party shall indemnify and save the other harmless from all costs, damages, fines, penalties, liabilities, losses and expenses the other party shall incur as a consequence of the violation of any law, ordinance, order, rule or regulation by the offending party. A party shall not be deemed in violation of any law, ordinance, order, rule or regulation while any governmental finding of such violation is being contested in good faith by that party.

12. FORCE MAJEURE

No liability shall result from non-performance or delay in performance caused by circumstances, including, without limitation, fire, flood, acts of God, strikes, riots, governmental action or inaction and the like, so long as the circumstances causing such delay or non-performance are beyond the control of the affected party, provided, however, that any party whose performance is prevented or impeded by such circumstances shall promptly provide written notice, with reasonable particulars, to the other party.

13. NOTICES

All notices required herein shall be deemed to be properly served if sent by first class mail with postage fully

prepaid thereon, or by facsimile and addressed to the party for whom intended at the following addresses:

If to Stockhausen:

Stockhausen, Inc.
2408 Doyle Street
Greensboro, NC 27406
Attn:
Phone:
Fax:

If to Cedar:

Cedar Chemical Corporation
5100 Poplar Avenue
Memphis, TN 38137
Attn: Geoffrey L. Pratt
Phone: (901) 684-5373
Fax: (901) 684-5398

14. TERMINATION

Anything elsewhere in this Agreement to the contrary notwithstanding, if a party breaches any of its obligations hereunder, the non-defaulting party may terminate this Agreement effective fifteen (15) days following written notice to the defaulting party of such default, provided such default shall not have been cured by the effective day of such notice.

15. INDEPENDENT CONTRACTOR

Neither Cedar nor any employees of Cedar are employees or agents of Stockhausen, and neither Stockhausen nor any employees of Stockhausen are employees or agents of Cedar, it being understood that Cedar's performance hereunder is that of an independent contractor, and each party is solely responsible for the employment, control and conduct of its own employees.

16. EXCLUSIVITY

During the Term of this Agreement, in addition to its compliance with the terms of the Secrecy Agreement referred to herein, Cedar shall produce Product exclusively for Stockhausen and shall not produce Product for any other person without Stockhausen's prior written consent.

17. GENERAL

The parties further agree as follows:

17.1 This Agreement shall be governed by the laws of the State of Tennessee.

17.2 This Agreement constitutes the entire agreement between the parties with regard to the matters contained herein and there are no understandings or agreements, express or implied, not expressly set forth herein. No modification of this Agreement or waiver of any of its provisions shall be effective unless it is in writing and signed by the party to be bound thereby. Neither party's waiver of any breach of any of the provisions of this Agreement shall be deemed to be a waiver of any subsequent breach of the same nature or any breach of a different nature. To the extent that either or both of the parties find it convenient to employ their normal forms of purchase order or acknowledgment of order in administering the terms of this Agreement, it or they may do so, but none of the terms and conditions printed or otherwise appearing on such form shall be applicable except to the extent that they reflect the quality, mode of shipment, or timing of deliveries.

17.3 This Agreement shall bind the successors and assigns of the parties hereto, but neither party may assign its interest in this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld.

17.4 All Exhibits referred to herein are deemed to be incorporated herein and made a part hereof. The section headings in this Agreement are inserted for convenience only and are not to be construed as part of this Agreement nor as a limitation of the scope of the particular sections to which they refer.

IN WITNESS WHEREOF, Stockhausen and Cedar have caused this Agreement to be executed by their duly authorized representatives.

STOCKHAUSEN, INC.

CEDAR CHEMICAL CORPORATION

BY: _____

BY: _____

DATE: _____

BY: _____

SCHEDULE OF EXHIBITS

EXHIBIT A - Specifications of Raw Materials

EXHIBIT B - Specifications of Product

EXHIBIT C - Test Methods for Raw Materials

**EXHIBIT D - Test Methods, Sample Retention and Disposition
Procedures for Product**

EXHIBIT E - Process

EXHIBIT F - Plant Preparation and Clean Out Procedures

EXHIBIT G - Modifications

STOCKHAUSEN

88

588

ITEM # 5310

CONSTANT FILE 788.

PROD GROUP # 124.

C688-4300



5100 Poplar Avenue • Suite 2414 • Memphis, TN 38137 • (901) 685-5348 • Fax (901) 684-5398

Date: July 20, 1993

To: Z. Waldman
J. Bumpers

N. Morgan, Jr.

From: Randal Tomblin
JRT-058-93

A handwritten signature, likely of Randal Tomblin, is written in dark ink to the right of the "From:" line.

cc: G. Pratt
J. Whitsitt

D. Hoppel
J. Hanna

Subject: Stockhausen Project

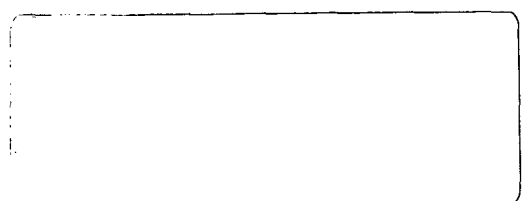
Attached are three sets of economics for a proposed project for Stockhausen, Inc., a subsidiary of HULS, the large German company.

The proposed project involves bleaching of walnut shell powder which is then used by Stockhausen in the manufacturing of hand cleaner. Cedar will receive the walnut shells, bleach the powder, centrifuge and dry the powder and return it to Stockhausen. This process is well defined and utilized by HULS in Germany.

The proposed contract, also attached, is for an initial term of three years with the usual guarantees on volumes, escalation, walk-away fees, etc. The project is expected to continue after the initial term.

The plant will renovate the dryer building, add centrifuges, and handling equipment at a projected cost of \$600,000. The project will pay out in 2-3 yrs, depending on which set of economics (volumes) are assumed. Under the initial three year agreement, the internal rate of return is estimated at 37%. In addition to acceptable economics, this project will pay for renovation and expansion of existing equipment which can then be utilized for future projects, similar to the Grace Project.

It is, however, expected that the contract will be extended if Stockhausen is successful in their marketing plans in which case the project is will yield about 66% internal rate of return (case II).



I recommend approval of this project and the capital request of \$600,000 promptly to effect the necessary modifications. The project can begin in the 4th quarter of 1993 if approval is granted to begin immediately upon signatures by Stockhausen. This capital is not included in the 1993 Capital Plan.

Randal Tomblin